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UNCLAS SECTION 01 OF 02 ACCRA 000406

SIPDIS

C O R R E C T E D C O P Y (D E L E T E D U N N E C E S S A R Y T E X T)

STATE FOR EB/IFD/OMA

EB/IFD/ODF

AF/EPF

TREASURY FOR ALEX SEVERENS

MCC FOR ROD NORMAN

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SUBJECT: USAID/WARP DISCUSSION OF A SECOND COMMON CURRENCY FOR WEST AFRICA JANUARY 28, 2005.

1. Summary: USAID/West Africa Regional Program (WARP) hosted a January 28 meeting in Accra, Ghana, to discuss the establishment of a common currency (the "Eco") for the West African Monetary Zone (WAMZ) --which consists of Ghana, The Gambia, Guinea, Nigeria and Sierra Leone-- and the work of the West Africa Monetary Institute (WAMI). WAMI, an advisor to the GoG, and a USAID funded consultant presented Pro and Con arguments on the establishment of a second common currency for WAMZ. End summary.

WARP SUPPORT FOR THE WEST AFRICA MONETARY INSTITUTE

2. Since 2002 USAID/WARP has provided technical assistance to the WAMI concerning the preliminary steps required for the establishment of the Eco currency. As of March 2005, WARP must decide whether or not to continue supporting this effort. The occasion of the meeting was the completion of consultant David King's study, "Currency Unification in the West African Monetary Zone: Economic and Implementation Policy," commissioned by WARP. Dr. King's presentation of his study was followed by a panel discussion, including representatives of the WAMI and an Advisor to the Central Bank of Ghana. Government of Ghana officials and representatives from a number of donor countries and international organizations attended and participated in the discussion.

OVERVIEW OF THE STUDY

3. Dr. King's study outlined the advantages and disadvantages of monetary union. Advantages include lower transactions costs, faster private sector development and job growth due to larger market size, and greater access to financing, and price stability. Disadvantages include the loss of monetary autonomy by the countries joining the union. Furthermore, the study outlined areas of concern such as the impact of Nigerian oil shocks and the state of macroeconomic convergence of Union members. The study views with skepticism the effectiveness of using monetary policy to improve the competitiveness of countries in the WAMZ because markets respond quickly to such machinations. The impact of monetary policy as a temporary short term stimulus depends on the lag between expanded monetary supply and the ensuing effect on inflation expectations. [rw3]The study noted that significant progress has occurred in several areas in macroeconomic convergence among the WAMZ countries, but that further progress in fiscal convergence is needed, and that Nigeria's passage of an oil price-based "fiscal rule" is an important practical precondition for monetary union. The numerous operational requirements for implementing the common currency were also reviewed. Dr. King contended that the advantages of rapid monetary union outweighed the disadvantages, and advocated the adoption of a common currency before macroeconomic convergence. The study and presentation are available by contacting USAID/WARP. [rw4] [rw5]

COMMON CURRENCY DEBATE

4. Following the presentation, there was a debate on the benefits of a common currency. WAMI Director Dr. M.O. Ojo unsurprisingly defended the adoption of the common currency but voiced concerns about the significant steps that must take place before this is possible. These include greater macroeconomic convergence, statistical harmonization, training for monetary policy and exchange rate management, and such concrete operating issues as printing the currency itself. He called for greater commitment from the member countries. Dr. Mahamadu Bawumia, a USAID/Ghana financed advisor to the Governor of Ghana's Central Bank, raised arguments against rapid common currency adoption. He argued that monetary policy can be an effective and necessary tool for facilitating economic growth. He also noted the slow pace of reaching milestones necessary for adoption. During the following discussion session, most in attendance were supportive of eventual monetary union, but there was a general consensus that adoption will require considerable more time, effort, and funding before it is a viable option. There was general agreement that despite progress in macroeconomic convergence there are real risks to rapid monetary union, and therefore the recent decision by WAMZ governors to postpone the July 2005 target date for launching the Eco was appropriate. There was also a consensus that in order to

move the process forward more effectively, WAMI needs to take a more forceful role both within WAMZ and in public as the champion of the new currency.

15. Comment: Officially, there is still strong support from West African governments for the adoption of a common currency in the WAMZ, and the system that has contributed to macroeconomic convergence. But skepticism remains concerning the will and ability of West African monetary zone countries to undertake the necessary steps for making it a reality. End Comment.